

OIL AND GAS LEASE SALE APPROVAL

The Department of Natural Resources and Conservation held an oil and gas lease sale on March 5, 2008, in the Auditorium at the Department of Transportation building. A total of 54 tracts were offered for lease. Fifty four tracts were leased for a total of \$240,197.12. The 54 tracts that were sold covered a total of 19,496.89 acres. The average bid per acre was \$12.32.

The high competitive bid for the March 5th lease sale was \$46.00 per acre for Tract 25 in Richland County. The largest total bid was \$23,040.00 for Tract 54 in Toole County.

The Director requests Land Board approval to issue the leases from the March 5, 2008 sale.

Grants:

Common Schools

State Industrial School

The following described lands were offered for oil and gas leasing through oral competitive bidding in the Department of Transportation auditorium, 2701 Prospect Avenue, Helena, Montana, 9:00 am, March 5, 2008

| Tract | Stip | Twp | Rge | Sec | Description | Acres | Bid \$/Acr | Total Price | Lessee |
|-----------------|----------------------|------|------|-----|----------------------------------|----------|------------|-------------|-----------------------------|
| Carbon | | | | | | | | | |
| 1 | 1, 2, 3, 4, 5, 6, 9 | 4.S | 24.E | 16 | All | 640.00 | \$20.00 | \$12,800.00 | ST. GEORGE COAL CO., INC. |
| 2 | 1, 2, 3, 4, 5, 6 | 4.S | 24.E | 36 | All | * 640.00 | \$25.00 | \$16,000.00 | ST. GEORGE COAL CO., INC. |
| 3 | 2, 3, 4, 5, 6, 13 | 5.S | 24.E | 36 | Lot 1, N2, N2SE4, SW4SE4, SW4 | 635.92 | \$10.00 | \$6,359.20 | LONGSHOT OIL, LLC |
| Carter | | | | | | | | | |
| 4 | 1, 2, 3, 4, 5, 6, 9 | 7.S | 57.E | 36 | All | 640.00 | \$6.00 | \$3,840.00 | OSE MONTANA CORP. |
| 5 | 1, 2, 3, 4, 5, 6, 7 | 8.S | 57.E | 16 | All | 640.00 | \$2.25 | \$1,440.00 | TOMMY C. CRAIGHEAD |
| Chouteau | | | | | | | | | |
| 6 | 1, 2, 3, 4, 5, 6, 7 | 24.N | 7.E | 9 | W2NE4 | 80.00 | \$1.50 | \$120.00 | MEGAWEST MONTANA |
| 7 | 1, 2, 3, 4, 5, 6, 8 | 24.N | 7.E | 28 | S2 | 320.00 | \$3.00 | \$960.00 | MEGAWEST MONTANA |
| Dawson | | | | | | | | | |
| 8 | 1, 2, 3, 4, 5, 6 | 19.N | 53.E | 36 | All | * 640.00 | \$3.00 | \$1,920.00 | PETRO-HUNT, LLC |
| Fallon | | | | | | | | | |
| 9 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 3 | Lots 1, 2, 3, 4, S2N2, S2 | 639.89 | \$6.00 | \$3,839.34 | OSE MONTANA CORP. |
| 10 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 10 | All | 640.00 | \$6.25 | \$4,000.00 | OSE MONTANA CORP. |
| 11 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 12 | SE4, E2NE4, E2SW4 | 320.00 | \$6.25 | \$2,000.00 | TOMMY C. CRAIGHEAD |
| 12 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 13 | S2NE4, SE4 | 240.00 | \$6.00 | \$1,440.00 | CONTEX ENERGY COMPANY |
| 13 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 24 | N2NE4 | 80.00 | \$6.25 | \$500.00 | OSE MONTANA CORP. |
| 14 | 1, 2, 3, 4, 5, 6 | 3.N | 60.E | 36 | W2W2, NE4NW4, NE4, S2SE4, SE4SW4 | 480.00 | \$6.00 | \$2,880.00 | CONTEX ENERGY COMPANY |
| 15 | 1, 2, 3, 4, 5, 6 | 4.N | 60.E | 28 | N2 | 320.00 | \$6.00 | \$1,920.00 | CONTEX ENERGY COMPANY |
| 16 | 1, 2, 3, 4, 5, 6 | 4.N | 60.E | 34 | N2 | 320.00 | \$6.25 | \$2,000.00 | TOMMY C. CRAIGHEAD |
| 17 | 1, 2, 3, 4, 5, 6 | 4.N | 60.E | 35 | S2 | 320.00 | \$6.25 | \$2,000.00 | OSE MONTANA CORP. |
| 18 | 1, 2, 3, 4, 5, 6 | 4.N | 60.E | 36 | All | 640.00 | \$6.25 | \$4,000.00 | OSE MONTANA CORP. |
| Garfield | | | | | | | | | |
| 19 | 1, 2, 3, 4, 5, 6 | 20.N | 39.E | 16 | All | 640.00 | \$1.50 | \$960.00 | FRONTIER ENERGY CORP. |
| Glacier | | | | | | | | | |
| 20 | 1, 2, 3, 4, 5, 6 | 36.N | 5.W | 34 | NW4, N2SW4 | 240.00 | \$43.50 | \$10,440.00 | LONEWOLF ENERGY, INC. |
| Pondera | | | | | | | | | |
| 21 | 1, 2, 3, 4, 5, 6 | 27.N | 1.E | 16 | All | * 640.00 | \$1.75 | \$1,120.00 | HANNA OIL AND GAS COMPANY |
| Richland | | | | | | | | | |
| 22 | 1, 2, 3, 4, 5, 6 | 26.N | 55.E | 16 | All | 640.00 | \$27.00 | \$17,280.00 | CONTINENTAL RESOURCES, INC. |
| 23 | 1, 2, 3, 4, 5, 6, 11 | 27.N | 55.E | 36 | All | 640.00 | \$15.00 | \$9,600.00 | TOMMY C. CRAIGHEAD |

| Tract | Stip | Twp | Rge | Sec | Description | Acres | Bid \$/Acr | Total Price | Lessee |
|--------------------|------------------------------|------|------|-----|------------------------------------------------------------------------|----------|------------|-------------|------------------------------|
| 24 | 1, 2, 3, 4, 5, 6, 12 | 27.N | 56.E | 9 | SE4SE4, Missouri Riverbed and related acreage | 54.70 | \$40.00 | \$2,188.00 | TOMMY C. CRAIGHEAD |
| 25 | 1, 2, 3, 4, 5, 6 | 27.N | 56.E | 10 | SE4SW4 | 40.00 | \$46.00 | \$1,840.00 | TOMMY C. CRAIGHEAD |
| 26 | 1, 2, 3, 4, 5, 6, 11 | 27.N | 56.E | 15 | SW4SE4, S2SW4 | 120.00 | \$32.00 | \$3,840.00 | TOMMY C. CRAIGHEAD |
| 27 | 1, 2, 3, 4, 5, 6 | 27.N | 56.E | 16 | All | 640.00 | \$12.00 | \$7,680.00 | TOMMY C. CRAIGHEAD |
| 28 | 1, 2, 3, 4, 5, 6 | 27.N | 56.E | 21 | All | 640.00 | \$14.00 | \$8,960.00 | TOMMY C. CRAIGHEAD |
| 29 | 1, 2, 3, 4, 5, 6 | 27.N | 56.E | 22 | NW4NW4, SE4NW4, NW4NE4, SE4NE4 | 160.00 | \$27.00 | \$4,320.00 | TOMMY C. CRAIGHEAD |
| 30 | 1, 2, 3, 4, 5, 6, 7 | 27.N | 56.E | 23 | Lots 1, 2, S2NW4, NE4, S2 | 638.65 | \$12.00 | \$7,663.80 | TOMMY C. CRAIGHEAD |
| 31 | 1, 2, 3, 4, 5, 6, 7, 10, 12 | 27.N | 56.E | 24 | Lots 2, 3, E2NW4, SW4NE4, W2SE4, Missouri Riverbed and related acreage | 280.02 | \$15.00 | \$4,200.30 | DON HEIMMER |
| 32 | 1, 2, 3, 4, 5, 6, 7 | 27.N | 56.E | 25 | W2NE4 | 80.00 | \$20.00 | \$1,600.00 | DON HEIMMER |
| 33 | 1, 2, 3, 4, 5, 6 | 27.N | 56.E | 35 | N2SE4, NE4SW4 | 120.00 | \$15.00 | \$1,800.00 | TOMMY C. CRAIGHEAD |
| 34 | 1, 2, 3, 4, 5, 6, 7 | 27.N | 56.E | 36 | All | 640.00 | \$12.00 | \$7,680.00 | TOMMY C. CRAIGHEAD |
| Sheridan | | | | | | | | | |
| 35 | 1, 2, 3, 4, 5, 6 | 36.N | 52.E | 29 | SE4SW4 | 40.00 | \$5.75 | \$230.00 | MEADOWLARK SEARCH, INC. |
| 36 | 1, 2, 3, 4, 5, 6, 8, 11 | 36.N | 52.E | 32 | E2NW4, E2SE4, SW4SE4, NE4SW4, N2SE4SW4 | 260.00 | \$7.25 | \$1,885.00 | MEADOWLARK SEARCH, INC. |
| Sweet Grass | | | | | | | | | |
| 37 | 1, 2, 3, 4, 5, 6, 10, 11, 12 | 1.N | 15.E | 16 | Lots 1, 2, 3, 4, 5, N2NE4, Yellowstone Riverbed and related acreage | * 299.00 | \$9.25 | \$2,765.75 | PACER ENERGY LLC |
| 38 | 1, 2, 3, 4, 5, 6 | 1.N | 15.E | 29 | S2SE4, SE4SW4 | 120.00 | \$10.25 | \$1,230.00 | PACER ENERGY LLC |
| 39 | 1, 2, 3, 4, 5, 6 | 1.N | 15.E | 32 | NW4, NW4SW4 | 200.00 | \$10.25 | \$2,050.00 | PACER ENERGY LLC |
| Teton | | | | | | | | | |
| 40 | 2, 3, 4, 5, 6, 14 | 26.N | 8.W | 1 | S2NW4, E2SW4 | * 160.00 | \$3.50 | \$560.00 | ANTARES EXPLORATION FUND, LP |
| 41 | 2, 3, 4, 5, 6, 14 | 26.N | 8.W | 2 | NW4SW4, S2SW4 | * 120.00 | \$4.00 | \$480.00 | ANTARES EXPLORATION FUND, LP |
| 42 | 2, 3, 4, 5, 6, 14 | 26.N | 8.W | 3 | Lot 2, SW4NE4, NW4SE4, NE4SW4 | 168.52 | \$5.25 | \$884.73 | ANTARES EXPLORATION FUND, LP |
| 43 | 2, 3, 4, 5, 6, 14 | 26.N | 8.W | 11 | NE4NW4, N2NE4, SE4NE4 | * 160.00 | \$4.25 | \$680.00 | ANTARES EXPLORATION FUND, LP |
| 44 | 2, 3, 4, 5, 6, 14 | 26.N | 8.W | 12 | SW4NW4 | * 40.00 | \$10.25 | \$410.00 | ANTARES EXPLORATION FUND, LP |
| 45 | 2, 3, 4, 5, 6, 14 | 27.N | 8.W | 15 | SW4SE4 | * 40.00 | \$10.25 | \$410.00 | ANTARES EXPLORATION FUND, LP |
| 46 | 2, 3, 4, 5, 6, 14 | 27.N | 8.W | 16 | All | 640.00 | \$12.25 | \$7,840.00 | ANTARES EXPLORATION FUND, LP |
| 47 | 2, 3, 4, 5, 6, 14 | 27.N | 8.W | 22 | N2NE4 | * 80.00 | \$12.25 | \$980.00 | ANTARES EXPLORATION FUND, LP |
| 48 | 2, 3, 4, 5, 6, 14 | 27.N | 8.W | 35 | S2N2 | * 160.00 | \$12.25 | \$1,960.00 | ANTARES EXPLORATION FUND, LP |
| 49 | 2, 3, 4, 5, 6, 14 | 27.N | 8.W | 36 | All | * 640.00 | \$12.25 | \$7,840.00 | ANTARES EXPLORATION FUND, LP |
| Toole | | | | | | | | | |
| 50 | 1, 2, 3, 4, 5, 6 | 33.N | 2.E | 4 | Lots 1, 2, S2NE4, SE4 | 320.19 | \$5.25 | \$1,681.00 | ROBINSON OIL COMPANY, LLC |
| 51 | 1, 2, 3, 4, 5, 6 | 35.N | 4.W | 11 | SE4 | 160.00 | \$30.00 | \$4,800.00 | LONEWOLF ENERGY, INC. |
| 52 | 1, 2, 3, 4, 5, 6 | 35.N | 4.W | 12 | NE4, S2 | 480.00 | \$21.00 | \$10,080.00 | LONEWOLF ENERGY, INC. |

| Tract | Stip | Twp | Rge | Sec | Description | Acres | Bid \$/Acr | Total Price | Lessee |
|-------|------------------|------|-----|-----|-------------|----------|------------|-------------|-----------------------|
| 53 | 1, 2, 3, 4, 5, 6 | 35.N | 4.W | 13 | W2 | 320.00 | \$35.00 | \$11,200.00 | LONEWOLF ENERGY, INC. |
| 54 | 1, 2, 3, 4, 5, 6 | 36.N | 4.W | 36 | All | * 640.00 | \$36.00 | \$23,040.00 | LONEWOLF ENERGY, INC. |

Summary by Lessor

Dept of Natural Resources & Conservation

19496.89

54

* Part of all of tract is not state-owned surface

Oil and Gas Lease Sale Summary

Lease Sale Totals

| | |
|--------------------------|--------------|
| Tracts | 54 |
| Acres | 19,496.89 |
| Total Bid Revenue | \$240,197.12 |
| Avg Bid Per Acre | \$12.32 |

Stipulations

- 1 Lessee shall notify and obtain approval from the Department's Trust Land Management Division (TLMD) prior to constructing well pads, roads, power lines, and related facilities that may require surface disturbance on the tract. Lessee shall comply with any mitigation measures stipulated in TLMD's approval.
- 2 Prior to the drilling of any well, lessee shall send one copy of the well prognosis, including Form 22 "Application for Permit" to the Department's Trust Land Management Division (TLMD). After a well is drilled and completed, lessee shall send one copy of all logs run, Form 4A "Completion Report", and geologic report to TLMD. A copy of Form 2 "Sundry Notice and Report of Wells" or other appropriate Board of Oil and Gas Conservation form shall be sent to TLMD whenever any subsequent change in well status or operator is intended or has occurred. Lessee shall also notify and obtain approval from the TLMD prior to plugging a well on the lease premises.

Issuance of this lease in no way commits the Land Board to approval of coal bed methane production on this lease. Any coal bed methane extraction wells would require subsequent review and approval by the board.
- 3 The TLMD will complete an initial review for cultural resources and, where applicable, paleontological resources of the area intended for disturbance and may require a resources inventory. Based on the results of the inventory, the TLMD may restrict surface activity for the purpose of protecting significant resources located on the lease premises.
- 4 The lessee shall be responsible for controlling any noxious weeds introduced by lessee's activity on State-owned land and shall prevent or eradicate the spread of those noxious weeds onto land adjoining the lease premises.
- 5 The definitions of "oil" and "gas" provided in 82-1-111, MCA, do not apply to this lease for royalty calculation purposes.
- 6 If the State does not own the surface, the lessee must contact the owner of the surface in writing at least 30 days prior to any surface activity. A copy of the correspondence shall be sent to TLMD.
- 7 Due to unstable soil conditions on this tract and/or topography that is rough and/or steep, surface use may be restricted or denied. Seismic activity may be restricted to poltershots.
- 8 The lessee is responsible to pay for all damages, including penalties and charges assessed by the USDA-CFSA on CRP lands, as a result of drilling and production on the tract.
- 9 Active sage grouse lek(s) have been identified on or adjacent to this tract. No activities shall occur on the tract until the proposed action has been approved in writing by the Director of the Department. If surface activity is proposed on the tract, the department will consult with the Director of the Department of Fish, Wildlife and Parks for his or her comments, concerns and recommendations. Additional mitigation measures may be required, including no-surface-occupancy buffers and/or timing restrictions, which may encompass part or all of the tract.
- 10 Any activity within 1/8 mile of the river, flood plain, or lake/reservoir on or adjacent to this tract must be approved in writing by the TLMD prior to commencement. No surface occupancy is allowed within the bed of the river, abandoned channels, the bed of the lake/reservoir, or on islands and accretions associated with the river or lake/reservoir.
- 11 Due to the floodplain/wetlands area(s), surface use may be restricted or denied.
- 12 This tract contains navigable riverbeds. No surface occupancy is allowed within the bed of the navigable river, abandoned channels, or on islands and accretions. In addition, upon completion of a successful well, where river title is disputed, the lessee will file an interpleader action under Rule 22, M.R.Civ.P. in the Montana District Court, or other court having jurisdiction, in which the leased lands are located for all acreage within the lease in which the title is disputed. The lessee shall name all potential royalty claimants as defendants.

Stipulations

- 13 This lease includes areas that may be environmentally sensitive. Therefore, if the lessee intends to conduct any activities on the lease premises, the lessee shall submit to TLMD one copy of an Operating Plan or Amendment to an existing Operating Plan, describing in detail the proposed activities. No activities shall occur on the tract until the Operating Plan or Amendments have been approved in writing by the Director of the Department. TLMD shall review the Operating Plan or Amendment and notify the lessee if the Plan or Amendment is approved or disapproved.

After an opportunity for an informal hearing with the lessee, surface activity may be denied or restricted on all or portions of any tract if the Director determines in writing that the proposed surface activity will be detrimental to trust resources and therefore not in the best interests of the trust.

- 14 This lease is located near the Rocky Mountain Front and includes areas that are environmentally sensitive. Therefore, except as otherwise provided below, the lessee shall not conduct any surface operations on the lease premises. If the lessee determines that surface operation on the lease premises may be required, the lessee shall submit a proposed Operating Plan or Amendment to an existing Operating Plan to the State Board of Land Commissioners describing in detail the proposed operations. No surface activities shall occur on the lease premises unless and until the Operating Plan or Amendment is approved by the Board. In determining whether to approve the proposed Operating Plan or Amendment, the following provisions shall apply:

1) If the lessee proposes an activity that does not entail any significant surface disturbance, the Board may approve the same after completion of the appropriate environmental review in accordance with the Montana Environmental Policy Act (MEPA) and an opportunity for public comment on the proposed activity has been provided.

2) Before the Board approves any proposed activity on the lease premises that entails a significant surface disturbance, an environmental impact statement (EIS) shall be completed in accordance with MEPA. The EIS shall analyze the potential impacts of alternative and future potential levels of oil and gas development and extraction on an ecosystem scale as the ecosystem is defined by the "Limits of Acceptable Change - Bob Marshall Wilderness Complex" adopted by the Montana Department of Fish, Wildlife and Parks in December 1991. The analysis shall consider all relevant information, which may include, but is not limited to, existing environmental reviews and management plans. Public involvement in the environmental review process shall be actively solicited by the preparer of the environmental review document and shall include, at minimum, adequately noticed public meetings in at least three communities including Great Falls and Helena.

3) The proposed surface activity shall adhere to the "Interagency Rocky Mountain Front, Wildlife Monitoring/Evaluation Program, Management Guidelines for Selected Species" adopted by the Montana Department of Fish, Wildlife and Parks in September 1987, or any successor guidelines thereto.

4) The Board may refuse to approve any proposed surface operations if it determines that they do not constitute the best use of trust resources or are not in the best interest of the State of Montana.
